

Message Text

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16

ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-03 FEA-01 /092 W

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R 061630Z MAR 75

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 2037

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY VIENNA

C O N F I D E N T I A L ALGIERS 0614

E.O. 11652: GDS

TAGS: ENRG, EIVN,AG

SUBJ: ALGERIAN GAS EXPORTS

REFS: (A) STATE 038902 (B) VIENNA 1430 (C) ALGIERS 0478

1. AT PRESENT TIME ALGERIA HAS FIRM CONTRACT WITH EL PASO TO EXPORT 10 BILLION CUBIC METERS OF GAS A YEAR FROM LNG FACILITY ARZEW I. THIS 350 MILLION DOLLAR FACILITY OF SIX LNG TRAINS IS BEING BUILT BY CHEMICO FOR SONATRACH WITH ASSISTANCE OF EXIM BANK LOAN.

2. DIRECTLY ADJACENT TO ARZEW I FACILITY AND USING SAME EXPENSIVE SALT WATER INTAKE EQUIPMENT, SONATRACH PLANS TO BUILD IDENTICAL 10 BILLION CUBIC METER LNG FACILITY, ARZEW II. UK EMBASSY SAYS BRITISH ECGD HAS AGREED TO FINANCE LESS THAN HALF OF THIS FACILITY WHOSE COST ESTIMATES ARE FROM 750 MILLION TO OVER ONE
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BILLION DOLLARS. ECGD OFFER IS ONLY GOOD UNTIL MARCH 31,

1975, CHEMICO SAYS IT HAS BID ACTIVELY FOR THIS PROJECT AND IS QUITE CONFIDENT OF WINNING CONTRACT EVEN THOUGH PRITCHARD RHODES IS ALSO COMPETING FOR JOB. BOTH FIRMS ARE USING UK SUBSIDIARIES TO QUALIFY FOR ECGD LOAN. WITH RENEGOTIATION OF EL PASO II CONTRACT STILL UNDER WAY, SONATRACH HAS, HOWEVER, NO FIRM BUYERS FOR THIS ARZEW II GAS.

3. FURTHER EAST ON SAME BEACH, ZRZEW III FOR EXPORT OF 15 BILLION CUBIC METERS A YEAR WAS SCHEDULED TO BE BUILT TO SUPPLY EUROGAS CONSORTIUM. CHEMICO IS RESPONSIBLE FOR ENGINEERING ONLY UNDER THIS CONTRACT. UNFORTUNATELY, FINANCING PACKAGE FOR ARZEW III FELL THROUGH. CONTRACT FOR LNG FACILITY ALONE WAS REPORTED TO BE VALUED AT 750 MILLION DOLLARS, BUT GERMAN SOURCES SAY THIS IS NOW OVER ONE BILLION DOLLARS. CONSORTIUM MET LAST WEEK TO SEE IF DEAL COULD BE PUT BACK TOGETHER AGAIN. EMBASSY HAS NO READOUT ON RESULTS EXCEPT SONATRACH AND EUROGAS CONSORTIUM OF BUYERS ARE TALKING. SONATRACH HAS SUGGESTED SHIFTING UNFINANCED SALE OF GAS TO CONSORTIUM FROM ARZEW III FACILITY TO FINANCED BUT UNSOLD GAS OF ARZEW II FACILITY. ARZEW II FACILITY COULD BE ENLARGED USING EXISTING COMMON SALTWATER COOLING SYSTEM FROM 6 TO 8 LNG TRAINS SO THAT PRODUCTION WOULD BE CLOSE TO 15 BILLION CUBIC METERS. SHIFT OF SITES WOULD BE QUICKEST WAY OF GETTING ALGERIAN GAS TO EUROGAS BUYERS.

4. GERMAN EMBASSY SOURCE SAYS THAT RHUR GAS AND GERMAN FIRMS IN EUROGAS CONSORTIUM ARE IN WORLD MARKET TO BUY ABOUT 20 BILLION CUBIC METERS OF GAS A YEAR. LAST FALLS AGREEMENT TO PURCHASE IRANIAN GAS THROUGH RUSSIAN PIPELINES HAS REDUCED THE URGENCY OF PRESSING FOR AN EARLY PURCHASE CONTRACT. FURTHER, GERMAN GAS COMPANIES BELIEVE THAT ANY PRICE NEGOTIATED TODAY WILL BE RENEGOTIATED WHEN GAS STARTS TO FLOW, SO PRICE IS NOT CRUCIAL ELEMENT IN NEGOTIATIONS. PRICE WILL BE WORLD GAS PRICE AND THERE ARE A LOT OF POSSIBLE SOURCES OF GAS OTHER THAN ALGERIA. GERMAN EMBASSY STRONGLY SUPPORTED RHUR GAS POSITION THAT ADVANTAGEOUS PRICE

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CONTRACTS WILL NOT LAST AND SAID SONATRACH VICE PRESIDENT AIT-LAOUSSINE HAD AS MUCH AS SAID THE SAME THING TO THEM WHEN REFERRING TO 30.5 CENT FOB PRICE FOR ALGERIAN GAS IN THE EL PASO CONTRACT.

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